

Message Text

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FROM COMMERCIAL COUNSELOR

EO 11652 NA
TAGS EINV BR
SUBJECT: ATTITUDE OF CDI TOWARDS US FIRMS

REF: STATE 231663

1. IT IS DIFFICULT TO COMPARE THE ACTIONS OF THE COUNCIL FOR INDUSTRIAL DEVELOPMENT (CDI) IN 1977 WITH THOSE OF 1976 BECAUSE (1) THE REORGANIZATION OF THE CDI FOLLOWING THE CHANGE OF MINISTERS OF INDUSTRY AND COMMERCE VIRTUALLY HALTED THE AGENCY'S OPERATIONS FROM APRIL TO JUNE 1977, AND (2) THE FACT THAT 83 PERCENT OF CDI APPROVALS IN 1976 WENT TO GOB-OWNED ENTERPRISES--MAINLY IN STEEL AND PETROCHEMICALS--MADE 1976 AN ABNORMAL YEAR, AND THUS COMPARISONS BETWEEN IT AND 1977 WOULD BE SOMEWHAT QUESTIONABLE. FROM THE STATEMENTS OF GOB MINISTERS, MADE IN RESPONSE TO GROWING PRESSURE FROM DOMESTIC INDUSTRIALISTS, IT APPEARS THAT BRAZILIAN POLICY IS BECOMING INCREASINGLY SELECTIVE WITH REGARD TO THE GRANTING OF INCENTIVES TO FOREIGN INVESTMENT. IN FIELDS IN WHICH THERE IS EXISTING BRAZILIAN PRODUCTION, AND ESPECIALLY WHERE THE GOB ITSELF HAS A STAKE IN THE PROFITABILITY OF THE DOMESTIC ENTERPRISES (I.E., WHERE THE GOB IS A SHAREHOLDER), IT WILL BECOME EVEN MORE DIFFICULT FOR FOREIGN FIRMS TO SECURE INVESTMENT INCENTIVES

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2. NEVERTHELESS, IT REMAINS THE BASIC POLICY OF THE GOB TO ATTRACT FOREIGN DIRECT INVESTMENT AND IT CANNOT BE SAID THAT THE RECENT ACTIONS OF THE CDI ARE INCONSISTENT WITH THIS BASIC POLICY. IN THE PAST TWO MONTHS THE CDI HAS GRANTED INVESTMENT INCENTIVES TO A NUMBER OF MAJOR PROJECTS BY US, EUROPEAN, AND JAPANESE FIRMS.

CDI APPROVALS TO US FIRMS INCLUDE A CR. 322 MILLION INVESTMENT BY MONSANTO, A CR. 302 MILLION INVESTMENT BY UNION CARBIDE, A CR. 392 MILLION INVESTMENT BY CUMMINGS DIESEL, A CR. 715 MILLION INVESTMENT IN A TRANSMISSION PLANT BY EQUIPAMENTOS CLARK, AND A CR. 1.3 BILLION BUTYL RUBBER PLANT BY EXXON. CDI APPROVALS OF PROJECTS BY US FIRMS SO FAR THIS YEAR TOTAL CR. 3.0 BILLION--11.5 PERCENT OF THE TOTAL CR.26.1 BILLION IN INVESTMENTS APPROVED IN 1977. IN ALL OF 1976 APPROVED INVESTMENTS BY US FIRMS TOTALED ONLY CR. 1 BILLION--ONLY 1.1 PERCENT OF THE TOTAL INVESTMENT APPROVED THAT YEAR AND 6.5 PERCENT OF THE PRIVATE SECTOR INVESTMENT.

3. THE HARNISCHFEGER CASE (REF) IS COMPLICATED BY THE STRONG PERSONAL OBJECTION OF CARLOS VILLARES, PRESIDENT OF THE MACHINE INDUSTRY ASSOCIATION (ABDIB), THE MOST ACTIVE AND PROBABLY THE MOST INFLUENTIAL OF THE BRAZILIAN INDUSTRIAL ORGANIZATIONS. THE ONLY REASON CITED BY CDI IN ITS LETTER OF REJECTION OF THE HARNISCHFEGER APPLICATION WAS THE SUPPOSED LACK OF SUFFICIENT MARKET FOR ANOTHER PRODUCER OF 20 TON CRANES. HARNISCHFEGER SAYS VILLARES HAS EXPRESSED THE INTENTION OF PRODUCING THESE CRANES, BUT THAT AT PRESENT THE ONLY PRODUCER IS THE US FIRM EQUIPAMENTOS CLARK. FURTHERMORE, HARNISCHFEGER SAYS THE INDUSTRIAL DEVELOPMENT AGENCY OF THE STATE OF MINAS GERAIS HAS DONE MARKET RESEARCH SHOWING THAT THERE IS A NEED FOR ANOTHER PRODUCER. DURING THE RECENT VISIT TO BRASILIA OF HARNISCHFEGER EXECUTIVE VICE PRESIDENT WILLIAM CARTER, THE EMBASSY ASSISTED HIM IN GETTING AN APPOINTMENT WITH MINISTER OF INDUSTRY AND COMMERCE CALMON DE SA, AND CARTER LIMITED OFFICIAL USE

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ALSO SAY FINANCE MINISTER SIMONSEN AND CDI SECRETARY GENERAL HATAB. HARNISCHFEGER'S CASE HAS NOW BEEN PRESENTED TO THE KEY POLICYMAKERS OF THE GOB.

4. THE CAR CASE (REF) IS LIKEWISE COMPLICATED BY AN IMPORTANT BRAZILIAN INTEREST. THE CARPENTER PROJECT IS BEING OPPOSED BY THE BRAZILIAN NATIONAL DEVELOPMENT BANK (BNDE), WHICH HAS INVESTED SOME \$28 MILLION IN A BADLY-MANAGED COMPETING STAINLESS STEEL FACILITY CALLED PERSICO, LOCATED NEAR SAO PAULO. THE LATEST CDI MOVE IN THIS CASE WAS TO REFER THE PROJECT BACK TO THE NATIONAL STEEL AND NON-FERROUS METALS COMMISSION (CONSIDER) FOR FURTHER TECHNICAL STUDIES. THE PRESIDENT OF MARTEC, CARPENTER'S JOINT VENTURE WITH S.A. MARVIN--ITSELF A JOINT VENTURE BETWEEN ANACONDA AND THE BRITISH-OWNED FIRM DELTA METALS LTD., APPROACHED CONSIDER TO POINT OUT THAT DOMESTIC DEMAND FOR STAINLESS STEEL TUBING IS 6,000 TONS PER YEAR, THAT THE COMPETING PERSICO PLANT CANNOT PRODUCE A QUARTER OF THE AMOUNT REQUIRED, AND THAT BRAZIL HAD SPENT \$33 MILLION FOR IMPORTS OF SUCH TUBING LAST YEAR. HOWEVER, CONSIDER REACTED AS NEGATIVELY AS HAD CDI. ACCORDINGLY, CARPENTER FEELS NOW THAT THERE IS NO CHANCE TO RECEIVE CDI APPROVAL WITHOUT HIGHER LEVEL INTERVENTION. (CARPENTER HAS ALREADY DISCUSSED ITS CASE WITH BRAZILIAN

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AMBASSADOR TO THE US PINHEIROS).

5. THE GOB HAS STATED THAT ITS POLICY IS TO SEEK TO AVOID MONO-POLY SITUATIONS AND, AT THE SAME TIME, TO AVOID PROLIFERATION OF FIRMS IN THE SAME PRODUCT LINE. GOB OFFICIALS HAVE POINTED OUT THAT FOR CERTAIN PRODUCTS THERE ARE MORE PRODUCING FIRMS IN BRAZIL THAN IN THE US. WITH THE INCREASING DEVELOPMENT OF BRAZILIAN INDUSTRY, IT WILL INEVITABLY BECOME MORE DIFFICULT FOR THE GOB TO DECIDE WHETHER A PRODUCT ALREADY PRODUCED IN BRAZIL IS THE EQUIVALENT OF A PRODUCT A FOREIGN FIRM WISHES TO INTRODUCE AND TO DETERMINE HOW MANY PRODUCERS OF A GIVEN TYPE OF PRODUCT ARE DESIRABLE FOR BRAZIL. THIS CAN BE EXPECTED TO LEAD TO MORE AND MORE US COMPANIES FEELING THAT THEY ARE BEING DISCRIMINATED AGAINST. THE GOB WILL REPLY THAT IT IS PROPER FOR IT TO DENY INCENTIVES LIMITED OFFICIAL USE

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WHERE THEY ARE NOT APPROPRIATE, BUT THAT THERE IS NO DISCRIMINATION AGAINST FOREIGN FIRMS WHO DO NOT SEEK GOVERNMENTAL INCENTIVES. 6. SEE ALSO BRASILIA'S 8292 AND RIO'S A-89 FORTHCOMING ON OCTOBER 17. CRIMMINS

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